



# EMPLOYEE LOYALTY: DIFFERENCES BETWEEN GENDERS AND THE PUBLIC AND THE PRIVATE SECTOR

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## ABSTRACT

This article presents the results of the research on important parameters of the loyalty of employees in the public and the private sector. The research was conducted in the Republic of Croatia as a part of the research focused on the essential parameters of the loyalty of employees that contribute to building and retaining loyal behaviour. Loyalty and employee satisfaction are the key parameters that influence the success of a company. In addition, loyal and satisfied employees are important in building good relationships with customers, suppliers and all stakeholders involved in business processes of an organization or a company. The purpose of this article is to define whether there is a difference in parameters of the loyalty of employees in the public and the private sector in Croatia, as well as whether there are certain differences based on gender.

## KEY WORDS

loyalty, employee loyalty management, quality management, employee motivation

## CLASSIFICATION

JEL: I21, J21

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## INTRODUCTION

Gaining loyalty of an employee is the highest level of positive interpersonal relationships that a manager in a company can achieve. Sometimes achieving loyalty requires a number of positive circumstances. It is commonly believed that loyalty is achieved only through money and providing employees with high salaries or benefits, but nowadays the situation has changed. The research presented in this paper focussed on determining parameters which incite an individual to become loyal to his or her company or boss and remain at the company where he or she works. The paper provides an explanation on each parameter that affects loyalty and the parameters are ranked according to their importance. Respondents are divided into two groups, those coming from the private and those coming from the public sector. One of the goals of the research was to determine whether there are differences in the perception of the parameters between people working in those two sectors. Data analysis grouped respondents by age, gender and education, and provided the ranking of parameters. Further research should establish to what extent the amount of salary is a motivating factor for employee loyalty and to what extent job security and a regular monthly salary are also motivating factors for employee loyalty.

The aim of this article is to draw attention to the importance of employee loyalty for a company. The article addresses the issue of how employees should be treated in order to become loyal and which conditions that a company provides result in employees' loyalty to a company.

## LITERATURE REVIEW

### EMPLOYEE MOTIVATION

One of the essential and the most important functions of managers is to manage human resources, which means to employ intelligent and quality people, motivate and educate them, provide them with useful information and knowledge and to help them develop their skills to eventually achieve better results benefiting the company. Human resources management, which implies managing people, their knowledge, creativity and skills, as well as their specific concerns and working climate, is the only feature that is unique for each specific company and can not be copied [1]. Human Resources Management in contemporary organizations has two main tasks: (1) it needs to support the achievement of competitive advantages with the help of employees, with the emphasis on employee motivation and investment in the development of knowledge, skills and behavior, and (2) it needs to contribute to the success of an organization [2]. Research shows that the success of organizations and companies is linked to the quality of performance of the functions and activities such as: compensation and benefits, creating a good organizational climate and culture, and the existence of training programs and learning [3]. Studies also show that the success of organizations is also linked with factors related to employees, such as: (1) security of the transaction, (2) job satisfaction, (3) organizational commitment, (4) the creation of knowledge and (5) the ability of managers and their relationship to employees [4]. Motivation is defined as a generic term for all internal factors that consolidate the intellectual and physical energy, initiate and organize individual activities, direct behavior and determine the direction, intensity and duration of the behaviour. Eventually, it provides an answer to the question why someone behaves in a certain way, which consequently results in operating performance at a certain level [1]. People are different, but the most important thing for managers is to discover how to get people interested. Some people wish to achieve a high status, some are motivated by money, some are satisfied with the pleasant working environment and interpersonal relationships, and some just look for a little respect from colleagues or superiors. There are five basic factors related to behavior used to examine the

theory of motivation: needs, encouragement, knowledge, type of business, sensations / emotions. There are theories according to which an individual is motivated by his or her unsatisfied needs, i.e. if the social life (and the position) of an individual is not satisfactory, the person will be motivated for more activities aimed at satisfying the needs for promotion. This theory is based on empirical findings that show that people tend to repeat behavior that has had positive effects, and to avoid behavior that has had negative effects. According to the theory of cognitive motivation behavior is not only influenced by external factors, but the motivation also involves cognitive processes – values, expectations, beliefs [5]. Work itself holds the key to motivation. It is believed that boring and monotonous jobs stifle motivation, while demanding and diverse jobs encourage it.

## **FINANCIAL PARAMETERS OF EMPLOYEE LOYALTY**

Motivational techniques can be divided into financial and non-financial. Financial techniques are divided into direct: (1) salaries, (2) fees, (3) travel costs, and indirect: (1) social benefits, (2) education, (3) security and (4) other benefits such as a paid annual leave [6]. Many studies show that money has become an obsolete means of motivation, and indirect financial rewards such as seminars, trainings, courses, involvement in specific projects, free use of professional literature, etc. [7] are being increasingly appreciated. All serious organizations therefore need to explore what motivates their employee. Otherwise, companies could invest in the benefits that will not have the desired effect on employee motivation. Buying loyalty by offering attractive salaries has proved to be a short-term measure, so the more conscientious managers are nowadays turning to non-financial rewards, improving the communication skills within the company and working in a positive working environment. The website 'MojPosao' has conducted a research on a sample of 900 respondents examining which parameters affect loyalty the most. Only 41 % of respondents pointed out money and benefits as the important motivational factors. If a company wants to motivate employees by salary and rewards, it should certainly have a fair reward system. Otherwise, it can cause a distortion of human relations in the company [8]. Not only research on employee loyalty but research on customer loyalty has also proved that satisfied and motivated employees are important for a company. A study has tested all important parameters of the loyalty of consumers, and the results have shown that consumers place high-quality after-sales services, such as dealing with complaints, the speed and efficiency of service and respect for customers above the prices of products and services [9]. Therefore, it can be argued that without loyal and satisfied employees there are no loyal and satisfied customers either. In order for the material rewards to increase the performance and efficiency, they should be linked to those indicators of work and performance which individuals or groups can influence by their behavior [10]. The plans that are set need to be achievable, and there must be a clear link between the performance and the reward. Incentives, such as salaries, are divided into individual and group incentives. Individual incentives encourage and give priority to individual results of employees and encourage targeted behavior, which contributes to better quality and a better customer feedback. A disadvantage of individual incentives is that they do not facilitate teamwork and they can cause conflicts that may have adverse effects on the working environment and business operations. Group incentives encourage teamwork, unity and synergy within the working group. They also incite individuals to identify themselves with the group and the company. Teamwork enables the transfer of knowledge and information, which results in higher productivity than individual work. In contrast, a negative effect of collective incentives is that an unsuccessful employee remains unrecognised within a group. The responsibility of an individual for a mistake can be attributed to the whole group or to another member of the group, and it is difficult to level out the commitment of all the members of the group. There are also different types of rewards. The first form of rewarding is a fixed salary. The

advantage of this form of rewarding is that organizations can easily change their work plan without any major resistance of employees, the administrative department calculates salaries faster and the system of net pay is more comprehensible. In case of fixed salaries, the annual budget is predicted easily and the employees are also satisfied with a 'guaranteed' salary. On the other hand, the fixed salary does not motivate workers to work harder. This can lead to conflicts between the employees that work hard and those working less diligently since they all receive the same fixed salary. Workers who are capable and motivated to work hard often leave such companies because their fixed salary does not provide enough satisfaction, and they are aware that somewhere else they could be paid a lot more for their efforts and work [11]. The so-called clean fee reward system is usually used in the sales industry. An advantage of this system is that it encourages employees to work to their maximum capacity and commitment. It encourages creativity, innovation and entrepreneurship. It develops a competitive spirit among employees, tightly linking the movement of marketing costs with the overall results of the work. It allows for a differentiated approach, various types and percentages of reimbursement for various tasks. It also supports diverse policies and strategies of the organization. Research shows that the participation of employees in company profits is also a huge motivation factor [12]. In addition to financial rewards, there are indirect ones as well. They can include a variety of benefits, social benefits, vacations, education and etc. It is especially important to mention that those kinds of material benefits are awarded when hiring employees in a particular company, and they are not allocated based on the criteria of company performance or the performance of employees. This system generally aims to keep employees in the company, rather than to improve performance and success [13]. Indirect financial rewards are well suited to achieve the loyalty to the company.

## **NON-FINANCIAL PARAMETERS OF EMPLOYEE LOYALTY**

The first non-financial parameter that affects employee loyalty is job satisfaction. Job satisfaction is a complex attitude which involves certain assumptions and beliefs about the job (a cognitive component), feelings towards work (an affective component), and the work assessment (an evaluation component). A satisfied worker is a productive worker, and the organization's success can not be achieved having dissatisfied employees. The parameters that affect job satisfaction can be divided into two groups, the personal and the organizational parameters.

Organizational parameters that affect job satisfaction are the following:

- 1) Work itself – people are happy if their work involves challenging tasks and not only simple and monotonous ones. Challenging work allows a worker to do a variety of tasks in which there is a freedom of action, but with a feedback on how the job is done.
- 2) Compensation system – in general, people are satisfied with their job if they have a high salary, but the reward system must be fairly built as well.
- 3) Favourable working conditions – if employees have better working conditions their satisfaction increases. Better working conditions create a greater opportunity for better expected operational performance.
- 4) Colleagues at work – work satisfaction is greater if employees work with colleagues with whom they have a good relationship and if there is a pleasant social atmosphere. A correct relationship with a supervisor also contributes to the satisfaction. Employees like having an open relationship with their superiors.
- 5) The organizational structure – if the organizational structure is clear, stable and familiar, employees have a clearer picture of the hierarchy in the company, and they are happy. But if it is not clear or there is no hierarchy, mutual human relations in the company can be disrupted. Some studies have shown that employees prefer decentralized organizations, because in such organisations they have a greater possibility of participation in the decision-making process [14].

Personal parameters that affect job satisfaction are the following:

- 1) The harmony between personal interests and work – when personal interests, knowledge and skills are in correlation with the needs of the workplace, employees are more satisfied with their job. They feel that their workplace allows them to express their opinions, knowledge and personality.
- 2) Length of service and status – older people with more years of service are generally satisfied with their job. This happens not only because a person eventually gets better at his or her job, gives better results and receives more rewards, but also because of the effect of cognitive dissonance. Even those who were not initially satisfied with their work, if they remain at the job for a long time, they convince themselves that they are satisfied with the job. Research has shown that job satisfaction increases with years of service and age, but the increase is not linear. First, job satisfaction increases sharply among the employees in their thirties, because at that age people become more successful at their jobs and their career advances. At the age of 40, people lose many illusions and are less satisfied. In the second half of the fifties and before retiring, job satisfaction of employees grows again.
- 3) Position and status – a higher position, better income, social status and power result in greater job satisfaction.
- 4) Overall satisfaction with life – job satisfaction and overall life satisfaction influence each other. Overall life satisfaction has a positive impact on job satisfaction, and vice versa, job satisfaction has a positive effect on overall happiness [15].

Research conducted in Croatia has shown that even 40 % of employees in Croatia are not satisfied with their job. The majority of employees believe that they have chosen a wrong profession, many people can not get a job in their profession, and some are forced to do the things they are not supposed to do according to the rules their profession. 30 % of respondents say that they do not like their jobs, and 38 % of respondents claim that their satisfaction in the workplace is hindered by poor relations with superiors or colleagues. Only 26 % of respondents are currently working and love everything about their job. The National Happiness Index shows that the least satisfied Croats are the ones between the age of 45 and 54. Men are generally more satisfied with their jobs or their work environment than women, and even 60 % of respondents believe that there is no possibility to make decisions and influence the work they do, which is one of the important factors for job satisfaction [16]. Other factors influencing loyalty include social responsibility [17], as well as free usage of communication channels, such as social media [18].

## **METHODOLOGY**

Respondents were divided into two groups, the respondents from the private and those from the public sector. A questionnaire was distributed among 50 respondents in each sector. The respondents had to rate the importance of each parameter of the loyalty of employees on a scale from 1 to 10, 1 being completely irrelevant and 10 being extremely important. In the second part of the research, participants had to evaluate the significance of the salary for their loyalty to a company. Checking the reliability of the parameter obtained by research we have found that Cronbach's Alpha = 0,925. This leads to the conclusion that the selected parameter has a relatively high reliability that enables further analysis of parameters of employee loyalty.

Respondents in the private sector included 50 % of women and 50 % of men, while in the public sector 25 % of respondents were women and 75 % were men, which amounts to 37 % of female and 63 % of male respondents in total. As far as the age of the respondents is concerned, in the private sector, 45 % of respondents were between the age of 20 and 30, 10 % of respondents were between the age of 31 and 40, 30 % of respondents were between the age of 41 and 50, and 15 % of respondents were between the age of 51 and 60. In the

public sector, 25 % of respondents were between the age of 20 and 30, 30% of respondents were between the age of 31 and 40, 25 % of respondents were between the age of 41 and 50 and 20 % of respondents were between the age of 51 and 60. The research participants also differ by education. In the private sector, 15 % of participants have finished only primary school, 40 % have secondary education, 30 % have a bachelor's degree, 15 % have a master's degree and there are no respondents with a PhD degree. In the public sector, 45 % of participants have completed primary school, 40 % have secondary education, 5 % have a bachelor's degree, 10 % have a master's degree and there are no respondents with a PhD degree. In the public sector, 65 % of respondents are just workers in the public administration, 25 % of them perform clerical work, 5 % have positions in the middle management, and 5 % of them belong to the top management. In private companies, 55 % of employees are just workers, 30 % of employees have a civil service position, 5 % of them belong to the lower management and 10 % to the senior management.

## RESULTS

Table 1 compares the public and private sector according to the average grade and standard deviation of the responses related to the employee motivations. Results reveal that workers in the private and the public sector estimate the parameters of loyalty quite differently. The most important parameter in the public sector is the respect from superiors, and in the private sector good business communication and a pleasant working environment.

**Table 1.** Employee motivations for the public and the private sector (Likert 1-10)

Item	Public sector	Private sector
Good motivation for work	7,80 (1,576)	8,55 (1,356)
Good business communication and a pleasant working environment	8,30 (1,261)	9,20 (1,795)
A successful team leader / organization	8,25 (1,832)	9,10 (1,373)
Job satisfaction	8,40 (1,273)	8,80 (0,894)
Direct financial rewards	8,20 (1,361)	8,95 (2,064)
Indirect financial rewards	6,75 (2,074)	8,10 (2,382)
Opportunity for advancement	7,55 (1,605)	8,75 (1,943)
Status	6,55 (2,114)	7,65 (1,981)
The sense of achievement and success	8,00 (1,376)	8,00 (1,777)
Achievement of objectives	7,80 (1,361)	8,10 (1,447)
Respect from co-workers	8,85 (0,875)	8,25 (1,943)
Respect from superiors	8,90 (0,968)	7,80 (2,093)
Ability to work autonomously	8,10 (1,447)	8,15 (1,182)
Good relationship with superiors	7,95 (1,701)	8,50 (1,395)

Table 3 shows parameters of loyalty for women and men, regardless of whether they work in the private or the public sector. For women, the most important parameter refers to good working conditions, while for men the first place was shared by two parameters, i.e. successful team leader / organization and respect from co-workers. For women, the least important parameter refers to indirect financial rewards, and for men the status which they have in the company. Direct financial rewards took the third place among women and the sixth place among men. It can be assumed that direct financial rewards are not the crucial and the key factor in building employee loyalty.

**Table 3.** Differences in ranking parameters by women and men.

<b>Women (37 %)</b>	<b>Men (63 %)</b>
Good business communication and a pleasant working environment	Successful Team Leader / Organization
Job satisfaction	Respect from co-workers
Direct financial rewards	Respect from superiors
Successful Team Leader / Organization	Good business communication and pleasant working environment
Good motivation for work	Job satisfaction
Opportunity for advancement	Direct financial rewards
Ability to work autonomously	Good relationship with superiors
Good relationship with superiors	The sense of achievement and success
Respect from co-workers	Ability to work autonomously
Achievement of objectives	Good motivation for work
The sense of achievement and success	Opportunity for advancement
Status	Achievement of objectives
Respect from superiors	Indirect financial rewards
Indirect financial rewards	Status

However, the direct question in the second part of the research was “To what extent is the amount of salary a motivating factor for employee loyalty, and loyalty to the employer?” Obtained replies clearly show the attitudes of respondents. The respondents had to rate two statements related to the amount of wages and job security on a scale of 1-5. The research results show that no one considers that salary is not a motivating factor. 7 % of people think that salary is a motivating factor of medium significance, 58 % of respondents believe that salary affects the loyalty to a significant extent, and 35 % of respondents said that salary affects employee loyalty to a company profoundly. These results show that the salary is still the most powerful factor that keeps an employee in a company.

Other important direct question in the second part of the research was “To what extent is job security and a regularly monthly salary are motivating factors for employee loyalty. Not any of the respondents claimed that job security and regular monthly salaries are not a motivational factor for employee loyalty. Only 2 % of people feel that they are an insignificant motivating factor, 20 % of people think that they are a factor of medium significance, 38 % of people think that they have a lot of influence on employee loyalty, and 40 % of people think that job security and a regular salary largely affect employee loyalty.

## DISCUSSION

Since the sample includes working-age citizens employed in the private and the public sector, and respondents are divided by gender, education and age, their ranking of important parameters of loyalty is compared according to these characteristics. With respect to that, in this study, we aim to test the following hypothesis:

**H1:** There is a difference in assessment of the key parameters of the loyalty of employees based on gender, age and the level of education and the position of respondents in an organization.

By examining correlations between parameters it has been found that among the respondents in the public sector, there is a very high positive correlation between the following parameters:

- Good motivation for work and ability to influence important decisions and behavior of others,  $r = 0,703$  with a significance level  $Sig. = 0,032$ ,

- Job satisfaction and ability to influence important decisions and behavior of others,  $r = 0,760$  with a significance level  $Sig. = 0,0001$ ,
- The possibility of promotion and the chance to influence the important decisions and behavior of others,  $r = 0,704$  with a significance level  $Sig. = 0,001$ ,
- Job satisfaction and ability to influence important decisions and behavior of others,  $r = 0,760$  with a significance level  $Sig. = 0,0001$ ,
- The possibility of progress and the status in the organization,  $r = 0,790$  with a significance level  $Sig. = 0,0001$ ,
- The possibility of progress and achievement of objectives,  $r = 0,703$  with a significance level  $Sig. = 0,001$ ,
- The possibility of promotion and the chance to influence the important decisions and behavior of others,  $r = 0,704$  with a significance level  $Sig. = 0,001$ ,
- The status of the organization and the possibility of promotion,  $r = 0,790$  with a significance level  $Sig. = 0,0001$ ,
- The sense of achievement and success and achievement of objectives,  $r = 0,702$  with a significance level  $Sig. = 0,001$ ,
- Respect from co-workers and respect from superiors,  $r = 0,789$  with a significance level  $Sig. = 0,0001$ ,
- Respect from co-workers and a good relationship with superiors,  $r = 0,737$  with a significance level  $Sig. = 0,0001$ ,
- Respect from co-workers and recognition for a job well done,  $r = 0,729$  with a significance level  $Sig. = 0,0001$ ,
- Recognition for a job well done and respect from co-workers,  $r = 0,729$  with a significance level  $Sig. = 0,0001$ ,
- Recognition for a job well done and a good relationship with superiors,  $r = 0,766$  with a significance level  $Sig. = 0,0001$ ,
- Good working conditions and a sense of achievement and success,  $r = 0,725$  with a significance level  $Sig. = 0,0001$ .

In the private sector, a high correlation was found to exist between the following parameters:

- Good motivation for work and direct financial rewards,  $r = 0,744$  with a significance level  $Sig. = 0,0001$ ,
- Good business communication and direct financial rewards,  $r = 0,855$  with a significance level  $Sig. = 0,0001$ ,
- Good business communication and career prospects,  $r = 0,785$  with a significance level  $Sig. = 0,0001$ ,
- Good business communication and status in the organization,  $r = 0,746$  with a significance level  $Sig. = 0,0001$ ,
- Good business communication and respect from co-workers,  $r = 0,770$  with a significance level  $Sig. = 0,0001$ ,
- Good business communication and a good relationship with superiors,  $r = 0,778$  with a significance level  $Sig. = 0,0001$ ,
- Direct financial rewards and a good motivation for work,  $r = 0,744$  with a significance level  $Sig. = 0,0001$ ,
- Direct and indirect financial rewards,  $r = 0,804$  with a significance level  $Sig. = 0,0001$ ,
- Direct financial rewards and career prospects,  $r = 0,758$  with a significance level  $Sig. = 0,0001$ ,
- Direct financial rewards and the status in the organization,  $r = 0,897$  with a significance level  $Sig. = 0,0001$ ,
- Good relationship with superiors and good working conditions,  $r = 0,754$  with a significance level  $Sig. = 0,0001$ .



This article utilizes the Kruskal-Wallis test. The null hypothesis of the test is based on the assumption that the middle population is equivalent for all groups of population. To test the null hypothesis, respondents are divided by gender, education and age. Using the Kolmogorov-Smirnov test for normality, it was established that no variable has a normal distribution of data. Since the significance level is less than  $\alpha = 0,05$  ( $Sig. < 0,05$ ), and it is  $\sim 0,000$  for all the variables, the assumption of normal distribution of data can be rejected. The test results show that the hypothesis has a statistically significant coefficient, so we can conclude that among the respondents in the public sector, there is a statistically significant difference in key parameters of loyalty of employees related to the age. We have found that these are the following parameters:

- Job satisfaction at the significance level  $Sig. = 0,039$ ,
- The amount of salary based on actual results at the significance level  $Sig. = 0,032$ .

When respondents employed in the public sector are observed taking into consideration their education, we can conclude that there is a statistically significant difference in key parameters of the loyalty of employees regarding the following parameter:

- Incentives to better, more intensive and more quality work at the significance level  $Sig. = 0,045$ .

When reviewing the respondents employed in the private sector, we can conclude that there is a statistically significant difference in key parameters of the loyalty of employees related to the gender. We have found that these are the following parameters:

- Job satisfaction at the significance level  $Sig. = 0,046$ ,
- The possibility of promotion at the significance level  $Sig. = 0,044$ ,
- The sense of achievement and success at the significance level  $Sig. = 0,047$ .

When observing and comparing the respondents employed in the public and the private sector together, we can conclude that there is a statistically significant difference in key parameters of the loyalty of employees related to their qualifications. We have found that these are the following parameters:

- The possibility of promotion at the significance level  $Sig. = 0,01$ ,
- The amount of salary based on actual results at the significance level  $Sig. = 0,013$ .

## **CONCLUSION**

This research confirmed that there are a few parameters of the loyalty of employees dependent on education, gender and age, and the sector of employment, i.e. the private or the public sector. The sample included employees of the private and the public sector in Croatia. The results of the research presented in this paper can be used as guidelines for developing management of the loyalty of employees in the Republic of Croatia. The results of the research can also provide guidance for further research of key parameters of the loyalty of employees. When respondents are analysed by gender, the first three parameters are parameters that are related to working conditions, job security, recognition and respect by superiors. When respondents are analysed by gender and by sector in which they work, it is evident that the salary and direct financial rewards are important parameters for men and women employed in the private sector, while women in the public sector prefer job satisfaction, good working conditions, good business communication and a pleasant work environment, and men prefer respect from colleagues and superiors and recognition for a job well done. As far as the question of the importance of salary as a motivational factor for the employee loyalty is concerned, 35 % of respondents rated salary as the most important motivational factor for loyalty to the employer, and 40 % of respondents rated job security and a regular salary as the most important parameters of employee loyalty.

The correlation between the tested parameters of employee loyalty exists both in the private and the public sector, but only in the private sector there is a very high correlation between salaries or direct financial rewards, and (i) good motivation for work, (ii) good business communication, (iii) indirect financial rewards, (iv) opportunities for promotion and (v) the status of the organization. The scientific contribution of this paper is the definition of the parameters that employees in the private and the public sector assessed differently based on their education, gender and age, which is confirmed by a statistical test. These differently assessed parameters include the parameters of job satisfaction and salary among the respondents in the public sector analysed taking into consideration the age of the respondents. The parameter of incentives for better, more intensive and quality work in respondents in the public sector taking into consideration the qualifications of the respondents. The parameter of job satisfaction, advancement opportunities and a sense of achievement and success in respondents in the private sector taking into consideration their gender. When it comes to the private and the public sector together and taking into consideration the qualifications of the respondents, the significant difference is observable in the parameters of the opportunity for advancement and salary. Based on the above, we can confirm the hypothesis of this research saying that there is a difference in assessment of the key parameters of the loyalty of employees based on gender, age, the level of education and the position in the organization of respondents in the public and the private sector in Croatia.

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